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The Proposal
to Place All Articles of Commerce
in Ten Classes and the Appli-
cation of a Mileage Scale
of Freight Rates
thereto

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Box 110

"From the Railroad Standpoint"

By BENJAMIN CAMPBELL

Vice-President of the New York, New Haven
& Hartford Railroad Company

"From the Shippers' Standpoint"

By EDGAR J. RICH, Esq.

Transportation Counsel, Associated Industries
of Massachusetts



Addresses delivered at the FIFTH ANNUAL MEETING
ASSOCIATED INDUSTRIES OF MASSACHUSETTS
COPLEY PLAZA HOTEL, BOSTON
October 28, 1920

3082

Box 710

From the ~~Rock~~ ^{Rock} Standpoint

by Benj. Campbell

From the Shipps Standpoint

by E. J. Rich

The Proposal
to Place all Articles of Commerce
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cation of a Mileage Scale
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ISSUED BY THE
ASSOCIATED INDUSTRIES OF MASSACHUSETTS
1034 KIMBALL BUILDING
BOSTON, MASS.

July 6, 1923 No. 1

FOREWORD

THE following papers prepared by Mr. Benjamin Campbell, Chairman of the Eastern Traffic Committee, and Edgar J. Rich, Esq., Transportation Counsel of the Associated Industries, explaining in part the proposed establishment of a ten-class scale of rates in Official Classification Territory, emphasize the constant effort of the carriers to provide uniform rules, regulations, descriptions and carload minimum weights so far as practicable throughout the entire country.

Prior to 1887 the individual carrier in many instances used its own classification and a review of some of these shows a great lack of uniformity. Subsequently, considerable was accomplished by the railroads in the direction of reducing the number of classifications in use. The Western and Southern Classifications applicable in their respective territories were in general use, but in the Official Classification Territory numberless local classifications were in effect. Some of these were the Official Classification of eastbound freight; the Official Classification of westbound freight; the Middle and Western States Classification of freight; and the General Merchandise Freight Classification. These, however, as well as other classifications applying between different sections and locally on the different roads, were superseded on April 1, 1887, the effective date of Official Classification No. 1.

The Official Classification provided for but six classes, whereas the Southern and Western Classifications provide ten classes.

Official Classification No. 1 was used by one hundred and thirty-one roads but because it was not entirely satisfactory to all of them, only eighty-seven roads used it exclusively while thirty-five used one other and nine used two others.

Since April, 1887, the use of the Official Classification has gradually become more general, so that all of the roads in Official Classification Territory now use it.

Forty-four editions of the Official Classification were published, the last issue being effective February 1, 1917, and being cancelled December 30, 1919, by Consolidated Classification No. 1.

This Consolidated Classification is the result of the views of the Interstate Commerce Commission freely expressed since its inception in April, 1887, the Commission having repeatedly urged the adoption of a Uniform Classification. The question has frequently been before the Congress of the United States and in 1908 the carriers appointed a working committee to institute uniform regulations, rules, descriptions, car-load minimum weights, etc., which are today effective in all territories, being incorporated in one classification which carries the different ratings effective in the several territories in three columns.

One aim desired by the carriers which has not as yet been accomplished is the uniformity of ratings in all three territories and this will, no doubt, receive careful attention in the near future.

The Interstate Commerce Commission in its finding in the Consolidated Classification case published recommendations by its classification experts looking toward uniform ratings, and it is generally agreed that this subject would have progressed much more rapidly had it not been for the recent freight rate advance. An advance in classification contemporary with the recent heavy increase in freight rates would have made a burden which many manufacturers could not have shouldered, but from the attitude of the carriers and the regulatory bodies there is no doubt that absolute uniformity in the three classification territories will be a fact in the near future.

Public opinion seems to be strongly in support of the ten-class proposition, it being felt that the present six-class scale, as provided by the Consolidated Classification for Official Classification Territory, is far too rigid while a ten-class scale, similar to that proposed, would result in a much more flexible and equitable basis.

*The Proposal to Place All Articles of Commerce
in Ten Classes and the Application of a Mileage
Scale of Freight Rates thereto*

“FROM THE RAILROAD STANDPOINT”

By BENJAMIN CAMPBELL

Vice-President of the New York, New Haven
& Hartford Railroad Company

THERE is now in course of preparation for later presentation to the public, through the Federal and State Commissions, a ten class scale in substitution for the present scale of six classes in Official Classification territory. This will conform to the practice existing in Southern and Western Classification territories, each of which have for many years had a ten class scale.

The following was stated to the Interstate Commerce Commission at the hearing in the application of the carriers for the recent increase in freight rates generally referred to as Ex Parte 74:

“An inseparable part of the general plan which the Committee has in contemplation for presentation to the Commission is the substitution, at as early a date as it may be physically possible to accomplish, of a complete new rate structure for that which now exists or will be in force when a further percentage increase is made. This plan, in part, consists in laying down a complete new class scale to cover all of Official Classification territory with suitable recognition of the lighter lines in Michigan, Northern New York, Northern New England, and the lines south of the main line of the Baltimore & Ohio Railroad, or, to be specific, the Chesapeake & Ohio, Norfolk & Western and Virginian railroads. For these excepted localities and roads it is the

*Plan as outlined
to I. C. C.*

“ FROM THE RAILROAD STANDPOINT ”

view that the scale thereto applied should be 110 per cent of that for the remainder of Official Classification territory with a higher basis for Northern Michigan as recognized by the Commission in the C. F. A. Case No. 965.

“It is recognized that some commodities will continue to need special treatment under specific tariffs, such, for example, as coal, iron ore, sand, gravel, trap rock, slag, etc., but tariffs to cover these commodities are intended to be ‘distance’ in form and made to cover the territory completely. Owing to their low grade and sensitiveness to competitive market conditions, the commodities such as have been enumerated cannot be placed under a rate adjustment having the same rate of progression, as in the case of most other traffic longer groupings are necessary in order to meet competitive producing and marketing conditions.”

Six Class Scale Inadequate

A scale of six classes is inadequate to include a sufficient number of articles of commerce to avoid the publication of a multitude of commodity rates, and the purpose of the enlarged scale with a corresponding broadening of the classification is to eliminate as far as possible commodity rates and exceptions to the classification.

*Ten-class scale
not revolutionary*

There is nothing violent or revolutionary in the matter of rate-making contemplated or involved in this procedure. It means substantially nothing more than the substitution of a consistent and more satisfactory rate structure for that now existing which is described as more or less chaotic in some parts of the territory involved.

It will have a tendency toward the simplification of tariffs, a steadying effect upon rates, and prove a long

“ FROM THE RAILROAD STANDPOINT ”

step in the direction of unifying the three classifications, as well as facilitate the publication of through rates to many points where they do not now exist; all of which will work to the greater convenience of the shipping public and a consequent improved relationship between them and the carriers.

With the exception of one or two instances of unfinished work the rate structure in the East has never been revised along the lines now proposed. The new table is to be wrought out of the present structure by taking the two extremes and filling between them on the following well recognized rate of progression and relationship of classes:

Progression

	Mileage Blocks	Progression of 1st Class Rate	Progression rate and relationship of classes
50 miles and under	5	2 cents	
Over 50 miles to 100 miles	5	1 cent	
“ 100 “ “ 150 “	10	1½ cents	
“ 150 “ “ 300 “	10	1 cent	
“ 300 “ “	20	2 cents	

Relationship of Classes

1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th
100%	85%	70%	60%	45%	35%	30%	25%	22½%	20%

Basis and Purpose of New Scale

The minimum class scale of 33 cents per 100 pounds, first class, has been taken as the base rate and the prevailing first class rate of \$1.57½ (to be changed to \$1.58) between Boston and Chicago will represent, for the purpose of illustration, the other extreme, the

" FROM THE RAILROAD STANDPOINT "

intermediate part of the table being constructed upon the basis of the above-stated formula.

*Straight mileage
scale of rates not
intended*

No part of the plan contemplates the application of a "mileage scale of rates" differing in substantial degree from that now existing. Freight rates are based upon distance qualified; *i. e.*, the rate per ton per mile decreases as distance lengthens.

Standard passenger fares on the other hand are based upon distance unqualified. For 10 miles the rate is 36 cents; for 100 miles, \$3.60, and for 1,000 miles, \$36. If freight rates were constructed upon that principle the first-class rate from Boston to Chicago would be more than \$6 per 100 pounds, whereas it is now \$1.57½, and it is not proposed to increase that figure above \$1.58 in projecting the ten class scale if there should be no further general increase in rates. In fact, this scale is, as before stated, only intended to supersede the existing structure filled as it is with inequalities, discriminations and other objectionable features.

*Aim is neither
to increase nor
to reduce
revenue*

The ten class scale may have the effect of increasing the carriers' revenue somewhat above the present structure. A comparison of the rates in the scale with those at present in effect seems to indicate this in some places, but that is not the underlying motive; neither is it expected that the ten class scale will result in reducing revenues from the present rate level, the aim being to preserve as nearly as practicable the revenues yielded by the structure that is finally superseded.

What the revenue result will be cannot be stated until a tentative test of the new against the old rates is made, which effort is now under way and will be made known

" FROM THE RAILROAD STANDPOINT "

when the scale is presented for approval by the several commissions.

A new rate structure such as is proposed will bring about an improved relationship of rates as between competitive communities and common markets, it being intended that rates shall be equal for the same distance in all parts of the territory.

The development of a new rate structure is a work of considerable magnitude and because of this fact the ten class scale will not be ready for presentation to the public and the commissions for several months. It is expected that public hearings will be held on the subject by the Federal and State Commissions where statutes so provide, and when the work has been brought to the point where the carriers are able to present it to the public a sufficient number of printed copies of the plan, together with skeleton rate tables and classifications will be issued to supply the public and afford them an opportunity to study it thoroughly in advance of the hearings. All things considered, it is doubtful if the new structure can be prepared, hearings concluded, decisions rendered, and tariffs published earlier than the end of the year 1921.

*New tariffs
may not be
ready for a year*

The foregoing measurably epitomizes the subject and more of interest could not well be stated without burdening the mind of those to whom this statement is addressed with a mass of technical detail that would add but little in the way of useful information, although the committee having the matter in charge will be glad to respond to any inquiries during the progress of the work.

“ FROM THE RAILROAD STANDPOINT ”

Rates in East Not Higher Than Elsewhere

Digressing somewhat from the topic of this paper, it seems not inappropriate to draw attention to the relative difference between the rate table in Official Classification territory and that of the other two, as a matter of general information at least, and to dispel the impression, if such exists, that rates in the East are higher than elsewhere. The freight rate table in Official Classification territory is substantially lower than in the Southern or Western territories, as the following table, based upon the year 1919, will illustrate:

Average Receipts Per Ton Mile and Per Ton, Average Haul of Class I Roads for Four Months, Ended October 31, 1919

	Off- cial	South- ern	% to OCTy	West- ern	% to OCTy	United States	% to OCTy
Average Receipts, per ton.....	\$1.30	\$1.97	148	\$2.35	176	\$1.70	128
Receipts per ton mile	.857	1.001	117	1.083	126	.955	111
Average Haul per ton (miles)	155.3	196.9	126	217.5	140	178.0	115

An average rate per ton per mile equal to that shown for Western territory applied to the business of Eastern territory for the year 1919, would have produced nearly \$500,000,000 greater revenue than the average rate of \$0.857 yielded.

The Proposal to Place All Articles of Commerce in Ten Classes and the Application of a Mileage Scale of Freight Rates thereto

“ FROM THE SHIPPERS’ STANDPOINT ”

By EDGAR J. RICH, Esq.

Transportation Counsel, Associated Industries
of Massachusetts

IT has been assumed that, because there is a lack of uniformity in freight rates throughout the country, therefore the present system of making rates should be radically changed and rates placed upon a more or less uniform basis. To accomplish this purpose the railroads in official classification territory have prepared a classification of ten classes, and have placed all commodities in this classification. The next step is to prepare a system of rates applicable to each class, and for all distances.

The Interstate Commerce Commission has repeatedly called attention to inconsistencies in rate schedules, and has from time to time urged a greater degree of uniformity. There is no doubt of the justness of this criticism, but the Interstate Commerce Commission has never intimated that the whole process of rate making under which this country has developed and has prospered should be radically changed merely for the sake of eradicating the inconsistencies.

*I. C. C. has
never proposed
to change whole
system to
eradicate
inconsistencies*

"FROM THE SHIPPERS' STANDPOINT"

*Methods of Rate-Making Under Which Industry
Has Developed*

*Little
competition in
rates between
carriers serving
same points*

In order to appreciate how radical is the proposed change it is necessary to review the methods of rate-making under which industry has developed. It is quite the fashion at the present time to say that competition in rates has disappeared, and that the only competition is in service. This is true to a certain extent. There is very little competition in rates between carriers serving the same points. The New York Central and the Pennsylvania make the same rates between New York and Chicago. We no longer have the fierce competition between the Middle West and the Atlantic seaboard for the transportation of grain. Rates are either the same, or they are upon agreed differentials. There is no slashing of rates; there are no rate wars, and therefore no unjustified diminution of revenue due to cut-throat competition.

*But competition
as between
markets is
essential to
industry and
commerce*

But this general condemnation of competition in rates applies to competition between carriers, and ought not to apply to competition in markets. If you destroy competition as between markets you destroy the greatest incentive to the development and extension of industry and commerce.

*Plymouth
industry a
case in point*

Take the case of binder twine which is produced at Plymouth, Mass., and by the plants of the International Harvester Company in the Middle West. The railroads, in order to secure this traffic from Plymouth, have given rates to the West lower than the normal rates. In this way Plymouth has been able to compete with

"FROM THE SHIPPERS' STANDPOINT"

the International Harvester Company to the advantage of the farmers of the West. Industry has been developed, and the International Harvester Company has not been able to monopolize this important trade.

This is an illustration of hundreds of long-established relationships which have enabled one section of the country to compete with another section of the country and which have prevented the monopolizing of a product by a great industry which may have an advantage by reason of location. At times conditions may arise where, by an adjustment of rates, markets may be temporarily opened up. When there were extensive building operations in Pennsylvania, rates were adjusted so that the New Hampshire granite quarries could compete with the sandstone of Ohio and with the granite of Tennessee. These are illustrations of the competition of markets, made possible only by reduction in freight rates from the more distant points.

*New markets
may be opened
by adjustment
of rates*

New England, in the well-known case of the cotton industry, is under a serious handicap—like all New England industries—in the high cost of transportation of fuel; but that disadvantage has been overcome to some extent by commodity rates on cotton, which are only slightly higher than the rates on cotton to the competing section of North and South Carolina and Georgia.

*Necessity of
special
commodity
rates on cotton*

Therefore, when we say that competition in rates no longer exists and no longer is desirable, we must confine our statement to the direct competition of carriers between the same points. If competition between the various sections of the country is not desirable; if, on

"FROM THE SHIPPERS' STANDPOINT"

the other hand, it is desirable to restrict the markets of the country, if it is desirable that barriers be erected to prevent the free flow of commerce, then competition between markets brought about by an adjustment of rates is undesirable.

Do we want to prevent the free flow of commerce within our own country

But do we want to apply the principle of a protective tariff to the commerce within our own country? For many years the great state of Texas so adjusted its state rates as to erect a barrier of commerce along its borders, with the avowed purpose of fostering its own industries. But as Texas has grown in power and in the development of its resources it has also grown in wisdom, and today the commercial organizations of Texas are condemning any adjustment of rates which will affect the free interchange of commerce between Texas and the rest of the Union.

Even if logical is mileage system rates desirable?

Even assume, however, that a mileage system of rates is logical, and that it would have been better if this principle had been applied, is it in the interests of the country, which has grown up and prospered under a different system, that relationships should now be disrupted merely for the sake of adopting what is regarded by some as a more scientific basis of rate-making?

Two Classes of Commodity Rates

Much of the trouble arises from a misunderstanding of the differences between two classes of rates, commonly called commodity rates. A commodity rate, less than the class rate, which is given for the purpose of developing industry, is less than the normal reasonable rate. It is profitable for the railroad to make such a rate

"FROM THE SHIPPERS' STANDPOINT"

because it thereby gets traffic which it otherwise would not secure, and it makes some profit over and above the actual cost of handling the traffic. It adds to the revenue which it receives from its general standard of normal reasonable rates, and it is this class of commodity rates which has been the principal means of bringing about competition in industry and a diversity of markets.

There is another class of commodity rates which justifies an extension of the number of classes to perhaps ten, or even more — those commodity rates which are applicable to the coarser commodities of low value; for instance, on brick, stone, lumber, coal — commodities which could not be transported any considerable distance if these articles took the rates applicable even to the lowest class. There properly may be, therefore, an extension in the number of classes to take care of these commodities which under normal conditions can not and ought not to move under the present class basis. In Southern and Western classification territory we have a greater number of classes, and, therefore, more commodities can move under class rates and on a mileage basis.

If, therefore, it were proposed to increase the number of classes only for the purpose of taking care of these commodities, the normal and reasonable rates for the transportation of which are less than the rates on the lowest class, no criticism could be offered of the proposed plan. My criticisms are directed only towards the proposed treatment of those commodity rates which are sub-normal; that is, rates which are below those which the railroad might properly charge if governed

Proposed treatment of sub-normal commodity rates criticized

“ FROM THE SHIPPERS’ STANDPOINT ”

merely by recognized principles in the making of class rates.

*Railroads
justified in
eliminating
some sub-normal
rates, but not all*

Undoubtedly there is justification for the cancellation of many of these sub-normal rates. A sub-normal rate ought not to be lower than is necessary to move the traffic. If it is lower, then the railroad is giving an undue preference to the industry enjoying such rates and is increasing the industry’s profits at the expense of its own revenue, with the necessary consequence that a higher burden is placed upon other articles of traffic. Perhaps ten or fifteen years ago there were many unjustifiable sub-normal rates, but on account of the dire necessities of the railroads during the last decade these rates have been to a considerable extent eliminated, and the situation is not nearly as bad now as it was then. The railroads are justified in the elimination of such sub-normal rates, but the sweeping method in which they proceed to do this is open to most serious consequences. The railroads say that after all articles are placed in ten classes, and they are convinced that a particular industry will be put out of business by such an adjustment, they will make a commodity rate which will enable the industry to continue. With the best intentions in the world, they cannot consider the hundreds and thousands of applications which will be made for such rates. The result will be that industry will be uncertain as to rates, and extension of such industries as are dependent upon sub-normal rates will cease. Damage will be done before the tariffs can be rectified.

“ FROM THE SHIPPERS’ STANDPOINT ”

*Powers and Duties of Interstate Commerce
Commission in Rate Matters*

But more menacing than the temporary evils which may result from a failure promptly to adjust rates so that industry can continue is the method which they apparently have in mind in bringing about a restoration of sub-normal commodity rates when such rates may be necessary. They have said, in substance, that where the Interstate Commerce Commission approves a sub-normal rate they will give it. This calls for a very careful analysis of the powers of the Commission and of the principles which must govern it in the adjustment or approval of rates.

*Menace of
proposed
method of rate
restoration*

The Commission has two very important powers so far as rate adjustments are concerned, aside from its very complete powers over discriminatory rates. It may condemn a rate as unreasonable and order the railroad to put a reasonable rate into effect, and it may name what that reasonable rate is. It also has the power, and the duty, of adjusting rates as a whole so that a pretty definite amount of net revenue will be secured by the railroads as a whole or in groups.

We must not close our eyes to the fact that the general attitude of the Commission towards the railroads has been materially affected by the provisions of the Transportation Act of 1920. Under the terms of that act the duty is placed upon the Commission of so adjusting rates that the railroads will receive a definite amount of revenue, which amount for two years is fixed by the Transportation Act at $5\frac{1}{2}$ per cent, or 6 per cent upon

*Attitude of
I. C. C. towards
railroads under
new
transportation
act*

“FROM THE SHIPPERS’ STANDPOINT”

the value of the property of the railroads as a whole or in groups. After two years, however, the Commission has almost unlimited discretion and must give consideration to the necessity of adequate service. The Act practically places upon the Commission the affirmative burden of providing credit and service. The Commission has become charged with certain duties of management, and the attitude of the Commission must necessarily approximate to the attitude of the railway executives themselves, with, however, this very important modification: The railway executive looks necessarily to the private interest of the owners and to the securing of the largest measure of profit consistent with the furnishing of proper service, and too often the question of proper service is entirely overlooked in the intense desire to show a proper amount of net earnings applicable to dividends. The attitude of the Commission, on the other hand, is to adjust rates at such a point as will give the service, and the question of profits is subordinate — except in so far as profits are necessary in order to establish credit.

This discussion of the powers and duties of the Commission in reference to revenue as a whole has no direct bearing upon the exercise of its other power, namely, to prevent the imposition of unreasonable rates in a particular case, except as an indication that in fixing individual rates it must have in mind the more important obligation of providing enough revenue to give credit, and consequently service.

Let us turn now to the question of the power of the Commission to give sub-normal rates which may be

*Commission
charged with
certain duties
of management*

“FROM THE SHIPPERS’ STANDPOINT”

necessary in order to maintain a particular industry. We are not now dealing with commodity rates on raw and crude materials, which really are normal reasonable rates, but with that other class of commodity rates which I have designated as sub-normal. I have no doubt that the general attitude of the Commission will be to adjust individual rates in such a way as to prevent the dislocation of industry. I have no doubt the Commission would strain a point in order to grant a sub-normal rate which would continue in operation any important industry. In the past it has looked with disfavor upon increases in commodity rates which would tend to dry up industry.

*Power of the
commission in
reference to
sub-normal
rates that are
necessary to a
particular
industry*

Attitude of Railroads Towards Sub-Normal Rates

If now we were told by the railroad that it would gladly continue sub-normal rates so far as it lawfully could we would have no cause for complaint. Commodity rates are lawful if given for the purpose of meeting carrier or market competition. That has been decided over and over again by the Commission and the courts. But instead of that the railroad says we will give you a sub-normal commodity rate if we are told to do so by the Commission. In other words, the railroads, with an apparent show of fairness, but with considerable vagueness, state that they will do whatever the Commission says in reference to such sub-normal rates.

*Commodity
rates lawful if
given to meet
carrier or
market
competition*

If they mean by that that they will acquiesce in any formal complaint which is made by a shipper attacking the rate, then there is no relief, for the Commission

“ FROM THE SHIPPERS’ STANDPOINT ”

Commission has no power to compel railroads to fix a sub-normal rate

has power under the Act merely to determine whether a rate is unreasonable. It can merely compel the railroad to reduce a rate which is higher than reasonable to a reasonable basis. It has no power to fix a rate which is less than reasonable, per se, even though such a rate is necessary in order to prevent the destruction of an industry.

But it is fair to assume that the railroads by their willingness to refer this matter to the Commission mean something other than a determination by the Commission of the unlawfulness of any commodity rates. Apparently they seek to make the Commissioners traffic managers, and voluntarily to transfer to the Commission the important duties of management.

The tests of a sub-normal rate

What are the tests which should be applied to the continuance of any sub-normal rate? Obviously the most important test is to determine whether the industry requires such a rate in order to exist. The determination of this question depends upon local conditions — upon the conditions under which the industry is producing its product, the degree of competition it encounters, the handicaps it is under, and the advantages and disadvantages it may possess over competitors in other ways. The determination of these questions calls for careful investigations — investigations which must be conducted locally. There is no doubt that in the past traffic managers have often given commodity rates when there was no necessity for doing so. They have given these rates without proper investigation, relying too much upon the statement of the shipper, and have often been guilty of unlawful discrimination.

“ FROM THE SHIPPERS’ STANDPOINT ”

But these errors of judgment should be corrected by the traffic managers themselves. To transfer to the Interstate Commerce Commission the duty of determining when commodity rates are required is a task impossible of accomplishment. There would result the development of a department of overwhelming proportions, and the attaches charged with the duty of determining the necessity of commodity rates would become the arbiters of the location of industry without any check upon the exercise of their discretion. It would result in an intolerable centralization of authority and in all the evils of government operation without the corresponding advantages.

Railroads should not expect the I. C. C. to assume duties of local management

Up to the present time the Interstate Commerce Commission has been singularly free from the evils of a bureaucratic organization. There has been direct and prompt action with little circumlocution. The numerous attaches who have been charged with important functions have, as a rule, been reasonable, and have shown no desire to become autocratic. After dealing with most other departments of government it is a peculiar relief to come to the Interstate Commerce Commission and to find direct, intelligent, unbiased action. But if the Commission should assume responsibilities of determining the policy of giving commodity rates, if it should assume the duties of traffic manager, it would become a bureau of unmanageable size, exercising arbitrary powers through a multitude of inexperienced attaches who would practically assume the duties of traffic managers and traffic executives.

Proposal of railroads would make I. C. C. a bureau of unmanageable size, with arbitrary powers

It is my understanding that prior to September 1,

"FROM THE SHIPPERS' STANDPOINT"

If a central body is to prescribe rates its yardstick will be the mileage basis

when no railroad could reduce a rate without the consent of the Interstate Commerce Commission, cases were referred to the Commission with the request that permission be given for the reduction of rates. I have been told that in some instances when a sub-normal rate was requested, the inquiry was not whether it was necessary to give the sub-normal rate in order to continue or establish the industry, but whether the rate was in line with other rates in other parts of the country. In other words, the test was not, does the industry require this rate in order to exist, but is it upon the same relative basis as other rates on the same commodity? Of what use is such a commodity rate, for instance, to an industry located in New England which must compete in the western markets with a similar industry located in Chicago? Its basis of rates may even be lower than its competitors', and it may require such a basis in order to compete. A comparison of rates, therefore, determines nothing. But it is perfectly true that if a central body is to prescribe rates it must use some common yard-stick, and that yard-stick is the mileage basis.

Summary

To sum up the situation:

A ten class scheme for Official Classification territory is entirely proper. It is entirely proper to eliminate the existing commodity rates on fuel, raw and crude materials for the reason that the lowest class rate, namely, sixth class rate, is higher than a normal reasonable rate on these articles. A classification should be extensive enough to enable all commodities to find a place

Great menace in cancellation of commodity rates is necessary to existence of an industry

"FROM THE SHIPPERS' STANDPOINT"

in it. Nothing but benefit would accrue from the establishment of such a classification if the railroads purpose to stop there. It is the cancellation of the commodity rates which are given for the purpose of developing business or meeting competition which constitutes the great menace to industry, and no protection is afforded to the industry merely by the disingenuous statement of the railroads that they are willing to place the whole matter in the hands of the Interstate Commerce Commission. That Commission is bound by the terms of the Act to exercise certain functions, and only certain functions. It can declare rates to be unreasonable, but these commodity rates which are the very basis for our present diversity of industry are below a reasonable basis, and if increased to the class basis can not be attacked under the Interstate Commerce Act. To refer to the Commission the determination of the economic justification for a sub-normal rate is to transfer to the Commission the most important functions of management, and to create a menacing bureaucratic control.

The railroads should carefully distinguish between the commodity rate which is normal and the commodity rate which is sub-normal. They may properly apply their ten class scale to the former. They should not change the latter except upon careful consideration of all the circumstances surrounding the industry which enjoys such sub-normal rate.

My analysis has been in technical terms. It is necessary to make such an analysis in order to dispel the fog in which the railroads are surrounding this momentous

No hope of relief in appeal to I. C. C.

“ FROM THE SHIPPERS’ STANDPOINT ”

question. What the proposition comes down to in simple language, however, is this:

Railroads propose to reverse policy under which industry has developed

The railroads propose to reverse the policy under which industry has developed. They propose to turn their backs upon the competitive system, which is the guiding force behind every truly democratic form of government in its relation to industry. They propose to measure off the country with a yard stick, and thus restrict industry within more or less definite zones.

Mistaken policy

Whether this policy is due to a failure to comprehend its radical departure from present methods, or whether it is due to a belief that the Interstate Commerce Commission will take care of the revenue needs of the railroads regardless of the amount of traffic which they may develop, is not clear. It is inconceivable, however, that the railroads should so interpret the Transportation Act. An individual railroad is given no assurance of any definite return. It must labor just as hard as under the old condition of things to secure the largest possible net revenue and the development of industry along its line, — a development which to a large extent rests upon the granting of commodity rates and which has been in the past regarded as one of the principal sources of such revenue.

Railroads must be brought to see the menace of their proposal

But whatever may be the underlying motive, whether it be inadvertence, indifference, failure to comprehend the conditions under which industry has been developed, or misapprehension of the Transportation Act, the railroads must be brought to see the menace which arises from their proposed method of rate-making. It is upon the railroads and the railroads alone that the

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pressure must be brought to bear. If they prefer to put all rates upon a non-competitive basis there is no power in the Commission or in the courts which will compel them to continue their present methods of rate-making.

*Purpose of the
Associated Industries of
Massachusetts*

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THE purpose of this Association shall be to improve the manufacturing conditions of the industries of Massachusetts in the public interest; to advocate fair and equitable legislation affecting the interests of its members and their employees; to inculcate just and equitable principles among its members and between its members and their employees; to acquire, possess and disseminate useful information for its members; and generally to promote the welfare of its members and their employees and the prosperity of the Commonwealth of Massachusetts and its industries.

*Section II of the Constitution
of the Associated Industries
of Massachusetts*

Pinkham Press, Boston

**END OF
TITLE**